EMNAMBITHI / LADYSMITH MUNICIPALITY

DRAFT

2012/2013 Medium -Term Budget

1. Mayoral Budget Speech

It is an honour to stand before you to present to present to this house, the Council meeting of the Emnambithi/Ladysmith Municipality, the draft Medium term Expenditure Framework for the 2012 / 2013 financial year.

As we consider the words of Simon Bolivar "ever hopeful of rescue" from poverty and underdevelopment , we need to review our past performance and be realistic in determining whether we have made a difference in making a better life for all our residents.

It is in this context that we will continue to foster the unity and trust of the people of Emnambithi in line with the vision of the Freedom Charter in fighting poverty, creating decent living conditions and expanding the fruits of democracy and prosperity to all our communities.

It is also in this context that we will continue to foster unity of all the people of Emnambithi in line with our Constitution to redress the imbalances of the past and to give every child and every youth an opportunity to develop optimally and to thrive.

Madam Speaker, the operating expenditure budget of R 569 million relating to the medium term Revenue – Expenditure framework presented today is based on the mandate of our people given to us in this term. It allocates resources to the priorities that we believe will unite us to extend basic services to more of our people. This budget will enable us to substantially break the back of poverty as we progressively extend quality services to all residents and create a business- friendly environment.

Despite the difficulties that we faced in the past years owing to the impact of the global economic recession, we wish to thank all those who continued to pay for the services provided. We will continue to strive for excellence in our services.

Honorable Speaker we are proud to announce that over 79% of our operational budget is funded from our own contributions.

The Equitable Share and other various grants amount to R124 million for the next year.

The total operating expenditure has increased by 14.4% against the 2011/2012 adjustment budget.

The capital expenditure will increase from R74 million to R80.6 million which is an 8.9% increase against the 2011/2012 adjustment budget.

Tariffs

Owing to the 13.5% increase in the Eskom bulk tariff and the latest NERSA determinations, the electricity tariff increase for consumers will be 11.03%. The inclining block tariff will be implemented in this financial year for the domestic consumers.

Refuse will be increased by 10%.

Property rates will be increased by 10%.

The increase on municipal accounts varies between 9.72% and 11.03%.

Honorable Speaker we are serious about fighting poverty and underdevelopment. Our focus has been on ensuring that the exit strategy for indigent people is effective and yields the desired results. The indigent support packages have been revised to cater for new needs and challenges. Therefore an amount has been set aside for the provision of services to the approved indigent households.

This social package assists household that cannot pay services and are registered as indigent in terms of the Indigent policy. An estimated R18.3 million has been set aside to cater for the basic services.

Capital Budget

A large portion of the capital budget is being spent in critical areas such as rural roads, community facilities in areas where they are sorely lacking, electrification of new housing areas, much needed upgrade of electrical supply and purchase of plant and equipment to enhance improved service delivery.

The 2012/2013 budget will focus on the following areas:

• 3Km of tarred road-	ward 1	R10.5m
• Community Hall	ward 3	R 1.0m
• Streetlights Mcitsheni & Zwelisha	ward 7	R 2.0m
• Streetlights Phase 1 & 2	ward 13	R 2.0m
• Streetlights	ward 18	R 1.5m
• Streetlights Mthandi	ward 20	R 1.0m
• Low Water crossing Balderskraal	ward 24	R 1.5m
• Swimming pool	ward 25	R 2.4m
• Sports Complex Ezakheni		R 3.5m

Roll over projects:

• Bluebank, Ndomba , Ezakheni Cemeteries	R 2.25m
• Community hall-Watersmeet	R 0.5m
• Extension of Lister Clarence Building	R 1.5m
• Transport plan	R 0.5m

- Community Hall - Emcitsheni R 0.5m
- Surveillance Camera Phase 3 R 1.0m

The allocations to our capital budget are drawn from the priorities that were identified during the IDP community consultation meetings. A total of R80.6million has been allocated to the capital programme for the 2012/2013 budget.

Honourable Speaker, as South Africans we have no illusions about the enormity of our task, particularly in the sphere of local government. The ideas of the Freedom Charter are gaining ground rapidly in South Africa. This is evident in the policies and programmes of the state. The demands of the different sectors, mainly the formerly oppressed are being addressed.

In closing, I believe that the budget presented will be able to enhance the quality of service delivery throughout the municipal area.

2. Budget Related Resolutions

2.1. Council resolves that the annual budget of the municipality for the financial year 2012/13; and indicative for the two projected outer years 2013/14 and 2014/2015 be approved as set-out in the following schedules:

2.1.1. Table A1 Budget Summary.

2.1.2. Table A2 Budgeted Financial Performance (revenue and expenditure by standard classification).

2.1.3. Table A3 Budgeted Financial Performance (revenue and expenditure by Municipal vote).

2.1.4. Table A4 Budgeted Financial Performance (revenue and expenditure).

2.1.5. Table A5 Budgeted Capital expenditure vote, standard classification and funding.

2.1.6. Table A6 Budgeted Financial Position.

2.1.7. Table A7 Budgeted Cash flows.

2.1.8. Table A 8 Cash backed reserves/ accumulated surplus reconciliation.

2.1.9. Table A9 Asset Management.

2.1.10. Table A 10 Basic service delivery measurement.

2.2 Council resolves that property rates reflected below and any other municipal tax reflected in the **Annexure 2 'Tariff Policy'** and **Annexure 5 'Municipal Property Rates Policy'** are imposed for the budget year 2012/13.

Category	**Tariff**	**Exemption**	**Phasing in**	**Impermissible per property R**	**Rebate**
Residential	0.0129	No	No	15 000	No
Industrial and Business	0.0231	No	No	15 000	No
Agricultural	0.0032	No	No	15 000	No
Public service Infrastructure	0	Yes		30% of valuation	No
Vacant Land	0.0535	No	No	0	No
Rural Communal	0	Yes			No

Game Hunting and /or Eco Tourism	0.0129	No	No	15 000	No
Municipal Domestic	0	Yes			No
State	0.0238	No	No	15 000	No
Land Reform Beneficiaries who have has title to the property </>10 years		Yes			No
Public Benefit Organisations		Yes			No
Religious		Yes			No
Industrial Estate with an estate and serviced by Agent	0.0179	No	No	15 000	No
Industrial Estate with an estate and serviced by owner via Agent	0.0179	No	No	15 000	No
Ingonyama Trust Board		Yes			No
Public Open Space		Yes			No
Municipal Vacant Land		Yes			No

2.3 All newly rateable properties are subjected to the phasing in terms of Section 21 of the Local Government: Municipal Property Rates Act of 2004

2.4 That the refuse tariffs be increased by 10% with effect from 1 July 2012 in terms of chapter 4 of the Municipal Finance Management Act No 56 of 2003.

2.5. That should it be necessary, a Municipal adjustments budget be prepared in accordance with Section 28 of the Municipal Finance Management Act No 56 of 2003.

2.6 That funds from electricity surplus be applied to fund other municipal expenditure.

2.7 That interest at the rate of prime plus 2.5% per annum is levied on all overdue municipal accounts.

2.8 Council resolves that tariffs and charges reflected in **Annexure 2 'Tariff Policy'** are approved for the budget year 2012/13.

2.9 Council resolves that the measurable performance objectives for revenue from each source and for each vote reflected in **Supporting Table SA7** are approved for the budget year 2012/2013.

2.10 Council resolves to adopt the amended Integrated Development Plan **subject to amendments resulting from the consultation and IDP assessment**.

2.11 Council resolves that the amended policy for Credit Control, Debt Collection and Indigent Policy, the Municipal Property Rates Policy, the Tariff Policy, the Petty Cash Policy and the Supply Chain Management Policy is adopted for the budget year 2012/2013.

2.12 Council notes the draft SDBIP will be tabled to Council in April/ May 2012 for approval by the Mayor.

2.13 Pensioners 60 years of age or older and with a gross household income of R7 500 and less will receive a discount of 20% on their rates assessment. This rebate must be applied for during the 2012/2013 financial year.

2.14 Medically Boarded persons with a gross household income of R7 500 and less will receive a discount of 10% on their rates assessment. This rebate must be applied for during the 2012/2013 financial year.

2.15 Disabled persons with a gross household income of R7 500 and less will receive a discount of 20% on their rates assessment. This rebate must be applied for during the 2012/2013 financial year.

2.16 Child headed households with a gross household income of R7 500 and less will receive a discount of one hundred (100%) on their rates assessment. This reduction must be applied for in the 2012/2013 financial year.

2.17 Consumers excluding state and PSI be granted a 5% discount should the total rates bill be paid in full in advance by the last working day in August for the 2012/2013 budget year.

2.18 Bridging finance for the capital programme must be made available.

2.19. The electricity tariffs are increased by 11.03%, with the implementation of the inkling block tariff for the domestic consumers subject to approval by NERSA.

2.20. The budget is submitted to the relevant treasuries subject to the changes suggested by Council.

2.21. Security deposits be paid in cash to the Municipality may vary according to the risk. The average Deposit for new connections is determined on application for electrical services. The Municipal Manager can increase deposits at any time and at his sole discretion not to be more than two and half times the monetary value of the most recent consolidated accounts of the premises for which an application is made.

2.22. Implementation of the capital programme is subject to the availability of funds.

3 Executive Summary

This is the first budget of the Council elected in April 2011. It is a continuation of the process of continuous improvement in budgeting and moves towards a longer-term financial planning outlook and Medium Term Income and Expenditure Framework through the consideration of a 3-year budget.
Where appropriate, funds were transferred from low- to high-priority programmes so as to maintain sound financial stewardship. A critical review was also undertaken of expenditures on noncore and 'nice to have' items.

Consultative Process

The 2012/2013 draft Budget will be taken to the public for comments. A community consultation process will undertake primarily through public meetings throughout the Municipal area.

Comments from the Public Consultation Meetings will be analysed and taken into consideration prior to the final budget being considered by the Municipal Council.

Alignment with government priorities

In order to ensure integrated and focused service delivery between all spheres of government it is important for the Municipality to align its budget priorities with that of National and Provincial government. Both National and Provincial government place a

high priority on infrastructure development, economic development, efficient service delivery and poverty alleviation.

Past & current performance, achievements, major policy initiatives and challenges

Emnambithi/Ladysmith Municipality has made good progress in a number of areas since the incorporation process in 2000. In these recent years of developmental and democratic government, a high focus has been necessary on financial sustainability. This required careful management of spending and monitoring service delivery in terms of affordability.

Despite tight financial constraints service delivery has been on-going with the provision of new roads, extending the electricity network into desperately needed areas, maintenance of the current road and electricity networks, providing housing in conjunction with Provincial Government, collecting and managing refuse and providing health care and clinics.

In 2010 and 2011 alone, 40 km of gravel roads were constructed and rehabilitated in the rural areas. Low water crossings were also constructed. Arterial roads around the CBD were resurfaced using the Small Town Rehabilitation Grant. Tarred roads in Ezakheni and Steadville to the amount of R27 million was constructed. The new Public Safety building as well as the testing station was completed. Streetlights were erected in Ezakheni and sidewalks were constructed using the Neighbourhood development grant. The kombi court in Ezakheni D section was completed using the Sports and Recreation grant. The sidewalks in the CBD were rehabilitated. The town entrances and the wimpy park was constructed using teh small town rehabilitation grant. The construction of the community halls in Emschiteni and Watersmeet began.

Various electrification projects were undertaken in the 2011 year. Many households were electrified. Energy efficient lighting was undertaken in Ezakheni. Streetlights in Ezakheni were installed. Substations in Poort road, Settlers Park and Janta road were refurbished to increase the electricity supply.

Addressing the serious backlogs in providing adequate housing continues as a critical focus for our Municipality, which is addressed in conjunction with the Provincial Department of Housing. Numerous housing projects are in progress, 3 500 houses in the St Chads Housing project, 170 houses in Steadville Area E and in Ezakheni. Projects about to commence include 450 houses in Steadville Area H. Various rural housing projects are also being investigated. The Municipality has applied for emergency funding of R18 million to repair 600 houses damaged by the violent storms in the municipal area. The Mayor also embarked on a project to assist in the building of houses for the community in St Chads.

PART 2 – Budget Commentary

The Municipality is participating in a countrywide financial reform programme for Local Government. The spearhead of this programme is the Municipal Financial Management Act (MFMA), which aims to modernise financial management and place it on a sound footing to be able to deliver satisfactory services to its customers.

The object of the MFMA is to secure sound and sustainable management of the financial affairs of the Municipality through transparency, accountability, planning and appropriate allocation of responsibility. In accordance with the Act, the Municipality has placed considerable emphasis on improving reporting systems to management and elected members. This is to ensure key stakeholders are adequately informed to be able to make the right decisions about the financial management of the Municipality.

The 2010/2011 Financial Statements have been completed and audited. The Municipality received an unqualified Audit Report from the Auditor-General.

Various Local Economic Development projects including car washes, community gardens, ploughing of fields and the aloe and berg tea projects were pursued during the year. The municipality also added poultry farming to its initiatives.

The Municipality has provided an additional testing centre for the issuing of drivers licenses to accommodate the increased demand.

One of the key challenges for the future that the Municipality faces is increasing its payment levels. Almost 73% of the Municipality's budgeted revenue is from local rates and payments for services. Non-payment directly threatens the municipality's ability to deliver services to its residents in the future. With extensive indigency measures in place, service delivery is dependent on Council implementing the Credit Control Policy on those residents that can afford to pay. With the implementation of the Municipal Property Rates Act there is a change in the rates tariff structure in that only a randage will be levied against the market value of the property and no rebates will be granted.

Another critical challenge is providing adequate infrastructure and assets. As a Municipality we are exceedingly aware of the community's needs for new infrastructure such as roads, footbridges, street lighting, community sport grounds, halls and other facilities.

However with limited funds, and infrastructure growing each year, there is less money to spend on maintaining the roads, stormwater, streetlights, community facilities and assets such as Council's trucks, road plant and other vehicles. Sometimes grant funds are provided to build the initial asset, but there are no ongoing grants to maintain the assets. Where assets are inadequately maintained, they quickly deteriorate, and either becomes irreparable or very expensive to repair. Regular maintenance is the cheapest option, but unfortunately this Municipality does not

allocate sufficient funds for regular maintenance on the huge amount of infrastructure and assets that it controls.

Expanding service delivery infrastructure and maintaining existing assets remains one of our greatest challenges.

Selected highlights from the operational budget and capital program

Electricity infrastructure is receiving a much-needed boost with the provision of R 8.2 m for refurbishment. The electricity service has increased the collection of outstanding monies through the appointment of a contractor to perform the task of removing meters and disconnecting services for non-payment.

Emergency relief has been allocated R1.7m to assist our most needy in times of natural disaster, which often occurs, with the damage of houses in the stormy season.

The maintenance of the roads and the storm water drains will be an on-going process. Maintenance of the electricity reticulation will also be addressed through the upgrading of substations and electrical equipment.

The provision for bad debt has been decreased to R8.6 million for the 2012/2013 as the payment levels have stabilised.

The main focus for the capital budget is the provision of infrastructure in specific areas from grant funding and own revenue sources.

The total Capital budget for 2012/2013 is R80.6 million, some projects are as follow:

- 3Km of tarred road- ward 1 R10.5m
- Community Hall ward 3 R 1.0m
- Streetlights Mcitsheni & Zwelisha ward 7 R 2.0m
- Streetlights Phase 1 & 2 ward 13 R 2.0m
- Streetlights ward 18 R 1.5m
- Streetlights Mthandi ward 20 R 1.0m
- Low Water crossing Balderskraal ward 24 R 1.5m
- Swimming pool ward 25 R 2.4m
- Sports Complex Ezakheni R 3.5m

Roll over projects:

- Bluebank, Ndomba , Ezakheni Cemeteries R 2.25m
- Community hall-Watersmeet R 0.5m
- Extension of Lister Clarence Building R 1.5m
- Transport plan R 0.5m

- Community Hall - Emcitsheni R 0.5m
- Surveillance Camera Phase 3 R 1.0m

Provision for capital in the outer years 2 and 3, is dependent on funding in each year in terms of grants and cash reserves.

Supporting Documentation

Section 17(3) of the MFMA requires certain documents to accompany the budget. The table below lists the necessary requirements and where these are contained.

Legislative Requirement	**Compliance Section**
(a) Draft resolutions-	
(i) approving the budget of the municipality;	Section 3
(ii) imposing any municipal tax and setting any municipal tariffs as may be required for the budget year; and	Section 3
(iii) approving any other matter that may be prescribed;	Section 3
(b) measurable performance objectives for revenue from each source and for each vote in the budget, taking into account the municipality's integrated development plan;	Annexure 4 Supporting Table 10
(c) a projection of cash flow for the budget year by revenue source, broken down per month;	Annexure 4 Supporting Table 10
(d) any proposed amendments to the municipality's integrated development plan following the annual review of the integrated development plan in terms of section 34 of the Municipal Systems Act;	Section 8
(e) any proposed amendments to the budget-related policies of the municipality;	Section 9
(f) particulars of the municipality's investments;	Supporting Table 4a
(g) any prescribed budget information on municipal entities under the sole or shared control of the municipality;	Not Applicable
(h) particulars of all proposed new municipal entities which the municipality intends to establish or in which the municipality intends to participate;	Not Applicable
(i) particulars of any proposed service delivery agreements, including material amendments to existing service delivery agreements;	Not Applicable
(j) particulars of any proposed allocations or grants by the municipality to-	
(i) other municipalities;	Not Applicable
(ii) any municipal entities and other external mechanisms assisting the municipality in the exercise of its functions or powers;	Not Applicable
(iii) any other organs of state;	Not Applicable
(iv) any organisations or bodies referred to in section 67(1);	Section 12
(k) the proposed cost to the municipality for the budget year of the salary, allowances and benefits of-	
(i) each political office-bearer of the municipality;	Supporting Table 4a
(ii) councillors of the municipality; and	Supporting Table 4a

(iii) the municipal manager, the chief financial officer, each senior manager of the municipality and any other official of the municipality having a remuneration package greater than or equal to that of a senior manager;	Annexure 4 Supporting Table 4a
(l) the proposed cost for the budget year to a municipal entity under the sole or shared control of the municipality of the salary, allowances and benefits of-	
(i) each member of the entity's board of directors; and	Not Applicable
(ii) the chief executive officer and each senior manager of the entity; and	Not Applicable
(m) Any other supporting documentation as may be prescribed.	Not Applicable

4. Budget Process Overview

Political oversight of the budget process

The MFMA allocates the Mayor and EXCO with the responsibility of ensuring the budget complies with applicable legislation and considers the needs of the community including:

- Providing political guidance over the budget process and the priorities that guide its preparation,
- Ensuring the budget is tabled and approved on time,
- Ensuring the Service Delivery and Budget Implementation Plan and Annual Performance Agreements are developed and approved, and
- Publicity and consultation on the budget is undertaken

Schedule of Key Deadlines relating to budget process [MFMA s 21(1) (b)]

Council adopted the Budget/IDP Time schedule in August 2011.

The timetable and process for tabling and approval of the budget is as follows:

ACTION	**WHO**	**WHEN**
Budget Workshop(All Councillors)	EMF	15/03/12 22/03/12
Consider tabled Budget	EXCO/Council	29/03/12
Public advertisement, press release etc. to community advising of tabled Budget	EMF	03/04/12
Budget Consultation	EMF /EMGT	April/May 2012
Collate feedback from community	EMF/EMGT	May 2012
EXCO to consider budget and community feedback	EXCO	17 May 2012

Council considers and adopts Budget and reviews draft SDBIP's and Performance Agreements	Council	31 May 2012

Process used to integrate the review of the IDP & preparation of the budget

The Time Schedule adopted by Council in August 2011 provides for an integrated Budget and IDP Preparation Process.

Additionally, the introduction of the Service Delivery and Budget Implementation Plans has enhanced matching of IDP priorities to the operational and capital budget, as well as setting performance targets for IDP objectives.

However, actual integration of the IDP and Budget process, including review by elected members and the community of the IDP strategies and priorities and translating these to the budget requires improvement, particularly in terms of capital programmes.

Models used for prioritising resource allocation

Community participation is an effective method of identifying priorities, but it is also critical to develop an IDP Prioritisation/Project Evaluation model for determining budget allocations. This model would take into account community needs, project profiles and assessment, available resources, strategic planning, national, provincial and local policy and good municipal management. Development and approval of Financial Planning and Annual IDP Review Guidelines will also assist this process.

Consultation

In accordance with the Municipal Systems Act and the Municipal Financial Management Act, consultation was undertaken with the local community primarily through public meetings in all wards.

Copies of the draft budget were provided to other levels of government for their comment.

5. Alignment of Budget with Integrated Development Plan

The IDP is undergoing review as required by the Municipal Systems Act and MFMA.

There is little change to the status quo and much of the information is deduced from the 2011 statistics.

Unlike the previous process, there has been consideration given to issues raised in Local Government Summits such as:

- Cooperative governance
- Women, youth, and disabled persons
- The role of infrastructure in poverty alleviation
- The relationship between Traditional Leadership and Municipalities

The above issues have been now identified in the IDP but still require further and serious attention.

The revised Spatial Development Framework has been incorporated and should serve as a vision for Council's development programme. The Economic, Tourism and Agricultural plans have also been incorporated in the IDP.

Implementation of the Performance Management System commenced in July 2006 and significant progress has been made particularly with Performance Agreements for Senior Staff and Performance Management Framework adopted by Council. .

There is now convergence and understanding from all role-players that the IDP should inform the budget process. The needs appearing on the IDP have been manipulated into programs that influence the division of the Capital Budget.

The budget will translate community inputs into a programme of action for the next three years. Therefore this budget should in essence address the following key priority issues as determined by the Community in the IDP:

- Roads
- Community Facilities
- Bridges
- Poverty Alleviation
- Storm Water
- Aesthetics
- Soil Erosion
- Electricity
- Unemployment
- Refuse Removal
- Community Safety
- Skills Development
- Information Signage

Council acknowledges that the IDP has guided the Budget Process.
It is important that plans are within the financial capacity of the Emnanbithi/Ladysmith. Supporting tables SA4 to SA6 **shows the high level link between the budget and the IDP*.***

6 Budget Related Policies Overview and Amendments

Listed below are the Municipality's budget related policies. These policies are available from the Municipality on request. Some policies including the Debt Collection, Credit Control and Customer Care, Municipal Property Rates Policy,

Investment Policy, Tariff policy and the Supply Chain Management Policy are under review. Major changes will be highlighted and provided as part of the budget process.

Current Budget Related Policies

- Accounting Policy
- Credit Control, Debt Collection and Customer Care Policy (including Indigent Policy)
- Investment Policy
- Supply Chain Management Policy
- Tariffs Policy
- Promotion, Recruitment and Selection Policy
- ABET Policy
- Workplace Policy on HIV/AIDS
- Workplace Policy on Substance Abuse
- Study Leave Policy
- Employee Assistance Program Policy

Employment Policies under development

- Job Creation Policy
- Email Policy

Policy Amendments

The major changes to the attached policies are highlighted in the policies.

7 Budget Assumptions

This section provides information on the assumptions used in preparing the budget. In most cases, the information is provided for the 2012/2013 budget year, and generally the same assumptions are be applied to the 2 projected outer years.

General inflation outlook and its impact on municipal activities

The 2012 medium term outlook for the South African economy remains positive with the general inflation forecast advised by National Treasury projected at 5.4% for the three year forecast period.

In the 2011/2012 year the CPIX in February 2011 was at 5.0% from the Reserve Bank of South Africa. Therefore the Municipal 2011/2012 tariff increases of 10% for refuse and rates. The increase for electricity tariffs is 11.03%, which is controlled by NERSA. This increase guideline has been released by National Treasury.

Credit rating outlook

In September 2006, Emnambithi/Ladysmith Municipality was pleased to receive a long-term credit rating of BB+. Some of the findings of the credit rating included:

- A stable outlook rating and a short term rating of B;
- The municipality's debt burden is low at 2.5%.
- The debtor's collection rate for the 2011/2012 financial years is at 96%
- Our rating of BB+ was the highest achieved in a comparison done in the report with five municipalities.

Interest rates for borrowing and investment of funds

When the Municipality last accessed loan funds in March 2008, it was able to access at an interest rate of 12.01 %. It is not expected that there will be a major variation on these rates if loan proposals are sought from the market. No loans will be taken in 2012/13 financial year.

Rates, tariffs, charges and timing of revenue collection

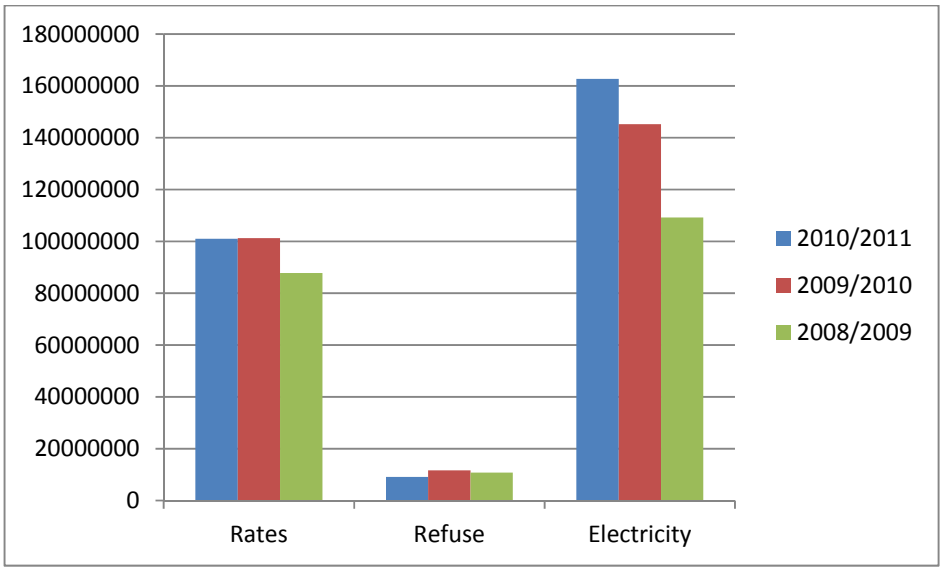
Accounts for rates, refuse and electricity are issued on a monthly basis and are due and payable within 30 days of issue. Recovery procedures for non-payment may be commenced within 1 day of payment default.

Growth in tax base of the municipality

The rate base of the Emnambithi/Ladysmith has increased due to the implementation of the Property Rates Act. This incorporates the areas that were not rated previously.

Collection rates for each revenue source

Listed below are collection rates for major revenue sources for the current and previous financial years.



As the graph indicates, there has been a slight improvement in the collection rates of the electricity and refuse services. The dedicated legal team and credit control section of the municipality has managed to increase the collection rate of the Rates service. However, diligent application of the Credit Control Policy in 2012/2013 is needed to improve this trend as well as collect the historical debt.

Price movements on specifics e.g. bulk purchases of electricity, fuel etc.

Eskom has announced a 13.5% increase, and this will be applied to the bulk purchase of electricity.

Average salary increases

An estimated 10% salary increase for officials and 10% for councillors has been budgeted for. The period for the Salary and Wage Collective Agreement 2009/2010 to 2011/2012 has come to an end.

Industrial relations climate, reorganisation and capacity building

The industrial relations climate in the Emnambithi/Ladysmith Municipality is sound, as most of the outstanding issues such as restructuring; the placement of staff and the job evaluation process have been completed. A good working relationship exists between management and unions. The Municipal Manager has addressed all the outstanding issues amicably and the process of implementing the job evaluation results will be done as soon as the salary curve has been issued by SALGA.

Capacity building is undertaken through the Skills Development Plan, which is updated and submitted to all relevant parties on an annual basis. Employment Equity plans also makes provision for upward mobility as a means of capacity building.

Indigency and free basic services

Currently around 6 000 poor households received a 100% relief on their rate accounts. In total, indigent households will receive an estimated R 18.9 million in financial relief. Indigency is available by application as well as to those properties that have a land and building value of R80 000 or less.
All indigent consumers receive free basic electricity in the amount of 50kWh per month and R 2.9 million has been budgeted for this in the 2012/2013 budget year. R 1.1million has been budgeted for free alternate energy which will be distributed to the communities that do not have access to the electricity network.

All indigent households currently receive a free refuse service, which is valued at around R7 million in the 2012/2013 financial year.

Impact of national, provincial and local policies

Strengthening the link between policy priorities and public expenditure is the core of medium term budgeting. Public expenditure translates policy priorities into delivery of services to our community and therefore is a key tool for accomplishing public goals.

One of the key national priorities is the improvement and accessibility of services to the community, which incorporates the need to create new and rehabilitate existing infrastructure. The provision of basic infrastructure to disadvantaged communities is needed.

It is important that within the Municipal budget, new proposals for both the operating and capital budget demonstrate a clear link between their expected outputs and key government objectives including national, provincial and local priorities.

Our IDP is aligned to the National Performance Objectives and the priorities arising from the recent community consultation are listed as part of the tabled capital budget.

Ability of the municipality to spend and deliver on its programmes

A number of factors impact on the ability of service delivery departments to deliver on programmes. These issues and risks are mainly focused on the lack of adequate resources and planning and include:

<u>Staffing – Skill Shortages</u>

There is a shortage of skilled and experienced Technical Staff, as well as Artisans/Operators. When vacant posts are advertised, the experienced and skilled incumbents do not apply, as the salary scales in smaller towns are not attractive.

Staffing - Staff Shortages

Although the boundaries were increased with demarcation in 2000, no additional staff was appointed. However, the area/boundaries have increased considerably and provision is needed in the budget to appoint appropriate incumbents.

Competing priorities within the organisation with skill and staff shortages can also severely affect the ability of the municipality to deliver, as is the case with too few electricians being available and required for both electrical functions, as well as providing credit control through disconnections.

To alleviate these problems, Council needs to consider implementing Learnerships as well as Contractor Development Programmes to enable and implement Capital and Maintenance Programmes, as skill levels in the community are limited.

Plant and Equipment

The average age of the vehicles can be well over 10 years and the average age of heavy plant can be 20 years. There are constant breakdowns, which are affecting service delivery. Small equipment is old and needs to be replaced as the breakdowns also affect service delivery.

Planning and Direction

Development of a fair and appropriate model for resource allocation and commitment to long term planning will improve the ability of the Municipality to delivery and sustain services and infrastructure. Clear and consistent policy from Council assists in speedy service delivery for the entire community.

Legislation and Organisational Change

New Legislation has resulted in change of operational procedures and new processes have to be put in place. Due to vacuums that have been created as a result of new Legislation, staff morale is low, i.e. Job Evaluations, restructuring etc. The Municipal Property Rates Act has changed the structure of the rates tariff in that no rebates are allowed and the rates are now calculated on the market value of the property.

Powers and Functions

Powers and Functions have caused some delays in finalizing issues as more than one organ of state is involved in approval.

Implications of restructuring and other major events into the future

Council is in the process of drafting the new organisational structure of the municipality.

8 Funding the Budget

Fiscal Overview

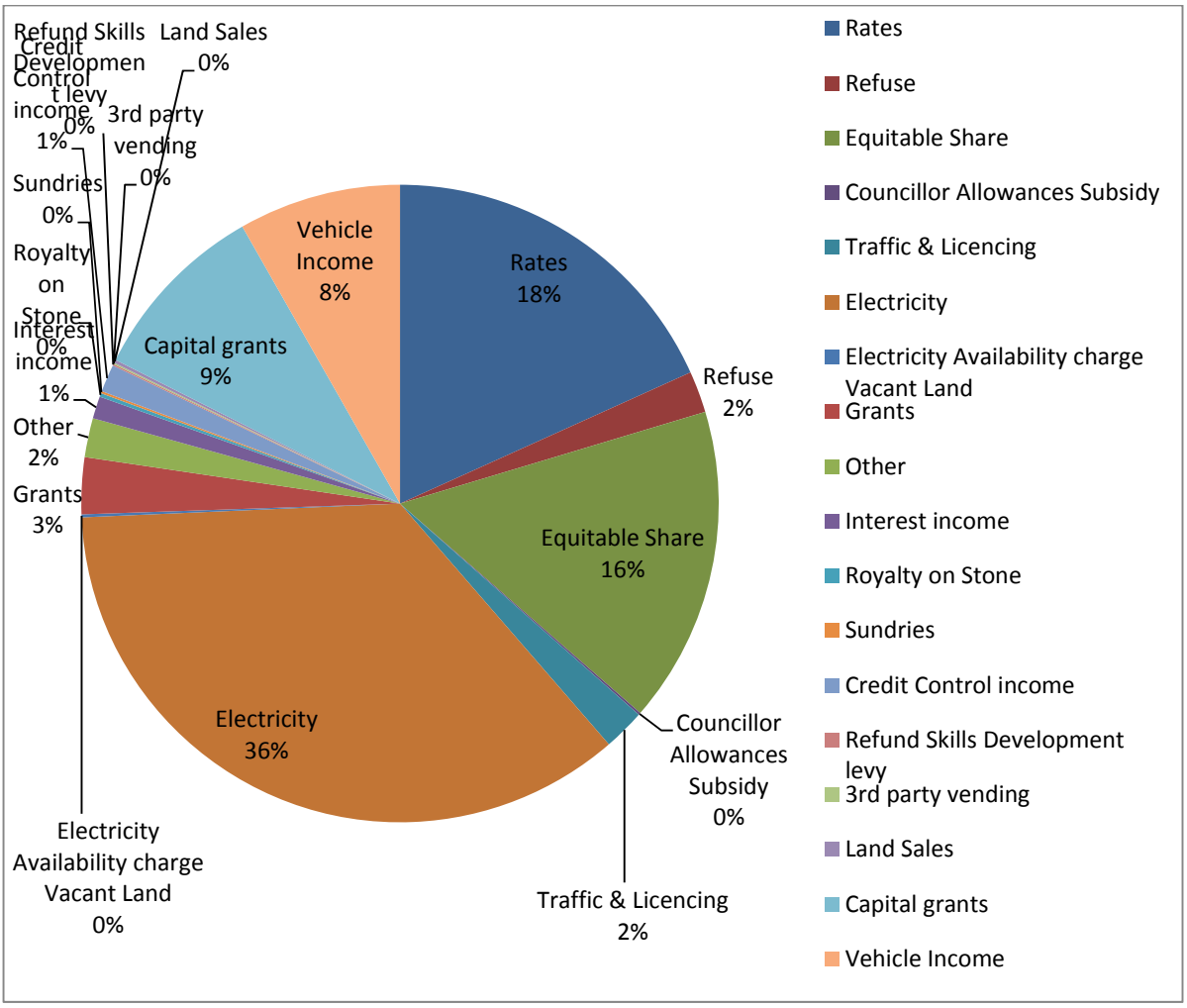
In the recent past, the Municipality experienced a period of extremely tight financial constraint. This was initially brought about by demarcation and incorporation, which increased municipal boundaries and responsibility. Although the Municipality was on the brink of serious financial difficulty, the finances were carefully managed with close scrutiny on spending, minimal capital programmes and borrowing, and careful monitoring of cash flow.

This prudent management turned the precarious situation around, and in the 2005/06 Budget, the Municipality was able to embark on a capital programme accelerating service delivery using long term borrowing. Cash reserves have been used to fund the 2012/2013 capital programme and cash flow requires on-going careful monitoring. In 2005/2006, a loan of R6m was accessed to fund the refurbishment of the Taskane Substation. Cash resources are minimal due to the decline in the payment rates.

Financial Statements for 2010/2011 were prepared in terms of Generally Recognised Accounting Practice and an unqualified audit report has been received from the Auditor- General.

Financial Services has developed a 3-year financial model, which is submitted with the budget. This financial planning tool is used to model the impact of different tariff increases, the impact of varying salary increases, the impact of different levels of loan funding and other major budget variances. By using a 3-year timeframe, it is possible to assess the impact of decisions over time and assist decision makers to make budget decisions that are sustainable.

The Municipality is in a strong position in terms of generating is own revenue through rates and taxes and in year one of the tabled budget, 19 % of income is received from external sources as detailed in the graph below 'Sources of Revenue'.



One of the challenges the Municipality faces is improving debt collection for those ratepayers who can afford to pay. As indicated in Section 10 of this document, average collection rates are around 96% and have slightly improved over the past 7 months. However, outstanding debt amounts to over R110 million and it is crucial that the credit control focus on the collectable debt and any uncollectable debt is written off.

R5million was written off in the 2011/2012 year.

It is important the Credit Control policy with regard to indigency is monitored and reviewed to ensure that the policy is fair, addresses the needs of the poor, and is efficient and cost effective to administer. It is also an important responsibility of the Council to ensure that the policy with regard to debt collection is applied fairly but rigorously so that those who can afford to pay do so.

Another major challenge the municipality faces is in terms of funding assets and equipment. There is insufficient funding allocated to maintenance and replacement of existing assets and plant. As a developmental municipality, we have a duty to provide new assets to those communities who are asset poor. However, financially we are struggling to maintain existing assets. Adding to the asset base further exacerbates the maintenance issue and it is not sustainable within current budgeting techniques.

In terms of the MFMA and GRAP, for a credible budget, all depreciation should be included as an expense to build funds for maintenance and replacement of assets. Although the R11.4 million provided for depreciation in the budget is a substantial increase over last year it is vital that we continue to progressively increase depreciation funding in the budget so that in the medium to long term, we are compliant with legislation and have provided for the maintenance and replacement of existing assets. A total of R84 million is the total amount that is included in the schedules to National Treasury. This is a non cash item, and therefore does not need to be funded.

Another aspect of capital planning which needs to be improved is providing the full cost implications for capital projects including operating, staff, maintenance, and asset replacement costs. It is important that the Council know the full life cycle cost of an asset when budgeting for it, as it will have future budget implications and the project will impact on current and future tariffs.

Much of the Municipality's plant fleet is old and spends more time in the workshop than in providing service delivery. Hire of heavy plant and maintenance and downtime of plant is a major cost. In recognition of this dilemma, significant funds have been directed towards plant and equipment purchases for the past two financial years. A medium to long-term plan for the replacement of plant and equipment needs to be developed and continued Council commitment to funding this plan is important to ensure wider and more efficient service delivery.

These issues can be addressed by moving toward a longer-term outlook for all planning including capital and asset planning. Deciding on capital projects just before the beginning of the financial year puts great risk on the ability of the service departments to complete all the necessary processes and finalise the project within any financial year. By committing to 3 -5 year capital plans, the Council improves the ability to deliver as lead times enable proper planning. Longer term planning also enables the Council to demonstrate to the community that while there are competing priorities with insufficient funds, their needs are being catered for in the medium term.

To expand and sustain services is also essential to limit staff costs and contain them within a reasonable percentage of the budget. New staffing must be assessed in the light of providing on the ground service delivery and current staff assessed as to how efficiencies can be gained. Developing and recruiting the right level of skills continues to be a challenging issue.

Sources of Funding

Rates, tariffs and other charges

Details of Rates tariffs are provided in the Rate Resolutions in Section 2 of this document. Details for Refuse tariffs for which the proposed increase is 10% and for electricity charges, the proposed increase is 11.03% and the minor tariff and other charges are provided in the **Tariff Policy – Annexure 2.**

Below is the history of tariff increases and **increases** in major tariffs for 2012/2013

	2009/10	2010/11	2011/12	2012/13
Rates	0%	8%	0%	10%
Electricity Tariff	25%	18.03%	22.38	11.03%
Refuse Tariff	8%	8%	10%	10%

The Municipality has adopted a **Tariff Policy** attached as **Annexure 2**, which provides for major services and lists minor services and tariffs.

Changes to minor tariffs are highlighted in bold in the attached document. Most minor tariffs have been increased in line with the global growth rate.

Debt Collection rates for the current and previous financial years are detailed in Section 10 with the average collection rate to January 2012 being 96% which is a decline over previous years. The Credit Control Section has implemented a 19-point arrears collection plan, which targets debtors for the best method of achieving collection. The Credit Control Section is assisted by the Legal Section in the collection of the outstanding debt. With full support for the Credit Control Policy and implementation of the collection plan, it is anticipated the collection percentages could rise by 1 - 2% for the 2012/2013- budget year. Performance Indicators for each major tariff are provided in **Supporting Table SA 8**.

Investments – cash backed accumulated surplus

The Municipality's own funds currently are in the primary account of the Municipality and have not been invested as detailed in **Supporting Tables SA 16 and SA17**. The municipality has numerous call accounts for its grant funds and funds for specific projects such as the Valuations exercise and the cash backing of the depreciation to purchase new equipment or rehabilitate existing equipment.

The Municipality currently has R90 million in reserves backed by investments, but in accordance with Generally Recognised Accounting Practice, and in an effort to address asset and equipment issues, the Capital Replacement Reserve has been opened in the 2008/2009 financial year.

Interest and the principal on all municipal borrowings are repaid at intervals determined in the loan agreement and included in the budget. Therefore sinking funds to repay the principal debt at the end of the loan period is not required.

Housing funds are held in trust on behalf of the Department of Housing and are separately invested.

Grant allocations

Supporting Table SA 18 details gazetted grant allocations for 2010/2011, the current year, 2012/2013 and the outer 2 budget years.

Each of the grants provided by **National Government** is listed below with a brief description of the use of the grant and other relevant information.

1. The **Equitable Share** Grant is a non-conditional Grant which is used towards addressing service delivery backlogs and providing a 'social package' to the poor in terms of free basic electricity and refuse. A trial is also being undertaken for free alternative energy.

2. The **Financial Management** Grant is used to promote and support reforms to financial management and implementation of the MFMA. Primary areas of focus have been the employment of Financial Interns, systems improvement for legislative and Accounting Standard compliance, and addressing finance capacity issues through external staff training. It is planned to use all, retained and future FMG funds towards funding positions in the Finance Departments organogram in the medium term and developing Information Technology requirements, such as the Supply Chain Management Supplier Database. Reporting on expenditure is provided monthly to National Government within the required timeframe and in full compliance with DoRA.

3. The **Municipal Systems Improvement Programme** is used to ally some of the substantial costs involved in implementing the Municipal Property Rates Act.

4. The **Municipal Infrastructure Grant** supplements the Municipality's capital budget to eradicate backlogs in infrastructure. MIG projects are prioritised using the IDP and business plans submitted to DPLG for approval.

5. The **Integrated National Electrification Programme** provides capital funds to address the electrification backlog of permanently occupied residential dwellings, installation of bulk infrastructure and rehabilitation of infrastructure.

Listed below are grants received from **Provincial Government:**

1. Museum Services
2. Libraries
3. Provincialisation of Libraries

Sale of assets

R1 million in revenue has been included in year one of the budget from sale of assets, which are land and property sales. It is important to recognise that this revenue is a once off, and cannot be relied on as a sustainable source of income. Accordingly, this revenue should not be used to fund recurrent expenditure such as organisational restructuring or on-going maintenance and expenses.

Borrowing

Supporting Table SA 17 provides details of borrowing in the previous and current years and projections for the 2012/2013 and the outer 2 budget years.

This borrowing programme is based around the projection of the 3 -Year Financial Model provided with the budget, which uses financial assumptions and trends to assist in estimating the levels of affordable capital programmes that may be provided over the next three years. Both interest and redemption are budgeted for in the model. Naturally if any assumptions in the model change, it will affect the overall picture.

Long-term borrowing will be undertaken for capital programmes only, and there is no anticipated need for short term borrowing as operational expenditure will be funded from revenue and cash.

9 Disclosure on Allocations Made by the Municipality

An amount of R23 000 has been provided for Grant in Aid to Community Groups, Sporting Organisations and organisations assisting the poor. Actual allocations will be in accordance with Council's Grant in Aid Policy and community requests.

10 Disclosure on Salaries, Allowances and Benefits

Details of personnel and salaries allowances and benefits for Councillors and officials are provided in **Supporting Tables SA 22, 23, 24.**

11 Monthly Cash Flows by Source

Monthly Cash Flows are detailed in **Supporting TableSA 25**.

12 Measurable Performance Objectives (Revenue Source and Vote)

Annual measurable performance objectives for each revenue source and for by expenditure vote are provided for in **Supporting Table SA 7**.

Annual performance objectives will be converted into quarterly targets for the Service Delivery and Budget Implementation Plan (SDBIP).

Performance Management is a system intended to manage and monitor service delivery progress against the identified strategic objectives and priorities. In accordance with legislative requirements and good business practices as informed by the National Framework for Managing Programme Performance Information, the Emnambithi/Ladysmith Municipality has developed and implemented a performance management system. Performance agreements are signed by the Municipal Manager and the section 57 employees. There is a performance audit committee who evaluates their performance on a quarterly basis. Employees from level 1 to 6 are also evaluated on a quarterly basis in terms of their performance agreements.

13 Disclosure on Implementation of MFMA & Other Legislation

The Municipal Financial Management Act (MFMA) is the most major financial reform in South African Local Government history and forms part of a broader programme in local government reform which includes the Municipal Systems Act, the Municipal Structures Act and the Municipal Property Rates Act. Implementation of the MFMA is being rolled out, but as a high capacity Municipality, most of the provisions of the Act already apply to Emnmabithi/Ladysmith.

The Municipality applies monies from the Financial Management Grant towards implementation of the MFMA and capacity building. A MFMA Implementation Plan has been developed and progress in monitored.

The budget process is commenced early in the financial year and is required to be driven by the Mayor and EXCO. A key impact of the MFMA is to move away from a one-year budget to a three-year budget that is linked to the IDP. The budget should be forward looking and provide longer term capital planning to prioritise capital development and assist in addressing backlogs and service delivery in the community.

The MFMA requires that performance on budget delivery be monitored through the use of Service Delivery and Budget Implementation Plans for each municipal department. These were introduced in the 2005/06 Budget and will be further refined

for this budget. The Municipal Performance Management System required in terms of the Municipal Systems Act including Performance Agreements for managers reporting to the Municipal Manager, has been developed and rolled out.

14 Budgets and SDBIPs – Departmental / Functional (Internal)

The MFMA allocates responsibility for the implementation of the approved budget to the Municipal Manager (s 69) ,who must provide the Mayor with a draft Service Delivery and Budget Implementation Plan (SDBIP) within 14 days of the approval of the Budget.

In line with legislation, Emnambithi/Ladysmith will prepare departmental SDBIP's for the budget including capital programmes.

15 Summary of Detailed Capital Plans

Indication of capital plans will be contained in the SDBIP when completed. The capital plans in the SDBIP where possible, provide detail regarding:

- Information by programme and municipal ward
- MIG sector priorities (refuse, electricity, roads, etc.)
- The source of the funding for the capital programme

Supporting table SA 28 shows capital expenditure by municipal vote.

Some of the improvements still required in terms of capital budgeting include identifying the total cost of the capital programme, including such items as operating costs, full depreciation, and maintenance and repair. When identified there should be sufficient budget allocated to cover the costs and future financial and non-financial implications considered including the tariff implications. Approval of the capital budget for the medium term will also enable detailed capital works plans to be prepared which indicate delivery by ward over three years.

16 Budgeted Financial Statements

Budgeted Financial Statements are required to be prepared according to the appropriate accounting standards. These are included in the schedules tabled.

A2 to A4

17 Contracts having future budgetary implications

In terms of the Emnambithi/Ladysmith Municipality's Supply Chain Management Policy, no contracts are awarded beyond the medium-term revenue and expenditure framework (three years). In ensuring adherence to this contractual time frame limitation, all reports submitted to either the Bid Evaluation and Adjudication Committees must report on the budget availability and sources of funding.